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Respondent's Exhibit A

ORIGINAL

Illinois Commerce Commission )  
On Its Own Motion, )  
 )  
v. )  
 )  
The Peoples Gas Light and Coke Company ) 00-0720  
 )  
 )  
Reconciliation of revenues )  
collected under fuel and gas )  
adjustment charges with actual )  
costs. )

DIRECT TESTIMONY  
OF  
VALERIE H. GRACE

- 1 Q. Please state your name and business address.
- 2 A. Valerie H. Grace, 130 East Randolph Drive, Chicago, Illinois 60601.
- 3 Q. By whom are you employed?
- 4 A. The Peoples Gas Light and Coke Company ("Peoples Gas" or
- 5 "Respondent").
- 6 Q. What position do you hold with Peoples Gas?
- 7 A. I am Director of Rates and Gas Transportation Services.
- 8 Q. What are your responsibilities in that position?
- 9 A. I am responsible for directing the activities of the Rates and Gas
- 10 Transportation Services Departments and for making recommendations
- 11 regarding rate policies for Peoples Gas and North Shore Gas Company.
- 12 Q. Please summarize your educational background and experience.

13 A. In 1980, I graduated from Illinois State University with a Bachelor of  
14 Science Degree in Business Administration. In 1988, I received a Masters of  
15 Management Degree from Northwestern University. I have been employed by  
16 Peoples Gas from September, 1980 to the present. I began my employment in  
17 what is now the Gas Supply Planning Department. In September, 1992, I was  
18 transferred to what is now the Rates Department. In February, 1993, I was  
19 transferred to the Office of the Chairman. In April, 1994, I was transferred to the  
20 Executive Office of what is now the Customer Service Division. In April, 1995, I  
21 returned to the Gas Supply Planning Department. In September, 1995, I was  
22 transferred into the Rates Department as Supervisor. In November, 1996, I was  
23 promoted to Manager of the Rates Department, and in June, 1997, I was  
24 promoted to my present position.

25 Q. Please give a brief description of the operations and status of Respondent.

26 A. I am advised by counsel that Respondent is a corporation organized and  
27 existing under the laws of the State of Illinois, having its principal office at 130  
28 East Randolph Drive, Chicago, Illinois 60601. It is engaged in the business of  
29 purchasing, storing, distributing, selling and transporting natural gas to  
30 approximately 840,000 customers in the City of Chicago. I am advised by  
31 counsel that Respondent is a public utility within the meaning of the Public  
32 Utilities Act.

33 Q. Please describe the subject matter of this proceeding.

34 A. Pursuant to Section 9-220 of the Public Utilities Act, on November 8, 2000,  
35 the Illinois Commerce Commission ("Commission") entered a citation order

36 ("order") directed to fourteen Illinois gas and electric utilities, including  
37 Respondent. The order requires Respondent to present evidence to the  
38 Commission at a public hearing in Docket No. 00-0720 reconciling revenue  
39 collected under the purchased gas adjustment clause (Rider 2, Gas Charge, of  
40 Respondent's Schedule of Rates) with the actual costs prudently incurred and  
41 recoverable under Rider 2, for the twelve months ended September 30, 2000,  
42 Respondent's fiscal 2000. The order also requires Respondent's filing to reflect  
43 fourteen specified data for each of its Gas Charges. The order further requires  
44 that notice of the filing of this evidence be made in accordance with the  
45 requirements of 83 Illinois Administrative Code Part 255. In this proceeding,  
46 Respondent is making an evidentiary showing in order to satisfy the  
47 requirements of the Commission's order.

48 Q. Please describe the notice given by Respondent of the filing in this case.

49 A. At the time the filing in the above-captioned proceeding was made,  
50 Respondent placed copies of the filed evidence, available for public inspection, in  
51 each of its offices. Public notice of the filing was also posted in each of these  
52 offices. Further, Respondent published notice of the filing once each week for  
53 two consecutive weeks in the Chicago Tribune, a secular newspaper of general  
54 circulation in Respondent's service territory.

55 Q. Please describe Respondent's Exhibit 1.

56 A. Respondent's Exhibit 1 includes a copy of the audit report of Respondent's  
57 independent public accountants, Arthur Andersen, LLP and the verification by  
58 Respondent's Vice President, Katherine A. Donofrio. The audit report includes a

59 copy of Respondent's Statement to Illinois Commerce Commission,  
60 Determination of Reconciliation Balance for Gas Charge for Fiscal Year 2000  
61 ("Statement"), as described in Rider 2, Section G, of Respondent's Schedule of  
62 Rates.

63 Q. Was the Statement prepared under your supervision and direction?

64 A. Yes, it was.

65 Q. Are the verification and the audit report true and correct copies of Ms.  
66 Donofrio's verification and the audit report of the independent public accounts?

67 A. Yes, they are.

68 Q. What are the types of Gas Charges that Respondent files pursuant to its  
69 Rider 2 and what costs do the Gas Charges recover?

70 A. Each month, Respondent files a Commodity Gas Charge ("CGC"), a Non-  
71 Commodity Gas Charge ("NCGC"), a Demand Gas Charge ("DGC") and a  
72 Transition Surcharge ("TS"). The sum of the CGC, NCGC and TS is the Gas  
73 Charge, which is applied to all Company-supplied therms except standby therms  
74 supplied to transportation customers. Standby therms are priced at the standby  
75 commodity charge, which is the sum of the CGC, 50% of the NCGC and the TS.  
76 The CGC recovers commodity-related costs. The NCGC recovers non-  
77 commodity related costs. The DGC also recovers non-commodity related costs,  
78 but from transportation customers. A factor of 50% is applied to the DGC, which  
79 is applied to each therm of transportation customers' contracted for standby  
80 service. Revenues arising from the application of the DGC are credited against  
81 the non-commodity related costs used in computing the NCGC. As both the

NCGC and DGC recover non-commodity related costs, revenues recovered under these charges are jointly reconciled with such costs. Finally, the TS, which is applied to each therm delivered by Respondent, recovers pipeline gas supply realignment transition costs.

Q. The Commission's order requires Respondent to include certain data for the prior reconciliation year in its determination of the current year's reconciliation. Please specify any unamortized Factor A balance at the end of fiscal 1999.

A. The unamortized Factor A balance at the end of fiscal 1999 for each respective gas charge is shown on Page 2, Line 1, of Respondent's Exhibit 1. Respondent's unamortized Factor A balance at the end of fiscal 1999 reflects a recoverable balance of \$4,087,601.80 for the CGC, a refundable balance of \$543,593.31 for the NCGC and DGC, and a refundable balance of \$46,386.77 for the TS, for a total recoverable balance of \$3,497,621.72. These amounts are also reflected on Page 2, Line 13, of Respondent's Statement to Illinois Commerce Commission, Determination of Reconciliation Balance for Gas Charge for Fiscal Year 1999 ("1999 Statement"). This document was submitted as Exhibit 2 in my direct testimony in Docket No. 99-0483, Reconciliation of Revenues Collected Under Fuel and Gas Adjustment Charges with Actual Costs for fiscal 1999.

Q. Please specify the total adjustments to gas costs (that is, Factor A) that were amortized to Schedule I in Respondent's fiscal 1999 monthly filings but

104 were not yet reconciled through Schedule II of Respondent's monthly filings at  
105 September 30, 1999.

106 A. Total unreconciled adjustments to gas costs (Factor A) reflect a  
107 recoverable amount of \$4,703,078.31 for the CGC, a refundable amount of  
108 \$110,099.09 for the NCGC and DGC and a refundable amount of \$15,490.43 for  
109 the TS, for a total recoverable Factor A of \$4,577,488.79. These adjustments,  
110 for the reported months of August and September, 1999, were not yet reconciled  
111 at the end of fiscal 1999. However, they are reflected in the CGC, NCGC and  
112 DGC, and TS Gas Charges for the effective months of October and November,  
113 1999, which fall within fiscal 2000. These amounts are shown on Page 2, Line  
114 2, of Respondent's Exhibit 1. They are also reflected on Page 2, Line 12, of  
115 Respondent's 1999 Statement.

116 Q. Please specify any Factor O amounts requested by Respondent for fiscal  
117 1999 and collected or refunded during fiscal 2000.

118 A. There were no Factor O amounts requested by Respondent for fiscal  
119 1999, nor were any Factor O amounts collected or refunded during fiscal 2000.

120 Q. What was Respondent's refundable or recoverable balance for fiscal  
121 1999?

122 A. Respondent's refundable or recoverable balance for fiscal 1999, which is  
123 determined by summing the amounts on Page 2, Lines 1 through 3, of  
124 Respondent's Exhibit 1, reflects a recoverable balance of \$8,790,680.11 for the  
125 CGC, a refundable balance of \$653,692.40 for the NCGG and DGC, and a  
126 refundable balance of \$61,877.20 for the TS, for a total recoverable balance of

127 \$8,075,110.51. These amounts are shown on Page 2, Line 4, of Respondent's  
128 Exhibit 1. These amounts are also reflected on Page 2, Line 11, of Respondent's  
129 1999 Statement.

130 Q. What are Respondent's fiscal 2000 recoverable gas costs and revenues?

131 A. Recoverable gas costs are summarized and shown on Page 2, Line 5, of  
132 Respondent's Exhibit 1. Recoverable gas costs amount to \$394,835,201.49 for  
133 the CGC and \$57,710,872.50 for the NCGC and DGC, for a total of  
134 \$452,546,073.99 to be recovered under the Gas Charge. There are no  
135 recoverable gas costs for the TS due to the termination of pipeline transition  
136 costs in November 1997, Respondent's fiscal 1998. Although there are no  
137 recoverable gas costs for the TS in fiscal 2000, there are revenues arising  
138 through the application of the TS, which are recovered under the Gas Charge.  
139 These amounts, which are insignificant, arise from billing adjustments and flow  
140 through Factor A of the TS. Revenues are summarized and shown on Page 2,  
141 Line 6, of Respondent's Exhibit 1. Revenues arising through the application of  
142 each Gas Charge amount to \$359,351,959.92 for the CGC, \$57,860,649.59 for  
143 the NCGC and DGC and negative \$37,333.83 for the TS, for a total of  
144 \$417,175,275.68 recovered under the Gas Charge. Recoverable gas costs and  
145 revenues are shown in more detail on Pages 3, 4 and 5 of Respondent's Exhibit  
146 1 for the CGC, NCGC and DGC, and TS respectively.

147 Q. Please specify the pipeline refunds or surcharges that Respondent  
148 separately reported in fiscal 2000 monthly Gas Charge filings.

149 A. Pipeline refunds and surcharges, which are summarized and shown on  
150 Page 2, Line 7, of Respondent's Exhibit 1, include a refund of \$177,817.95 for  
151 the NCGC and DGC.

152 Q. Please specify any other adjustments that were separately reported in  
153 fiscal 2000.

154 A. There were no other adjustments that were separately reported in fiscal  
155 2000.

156 Q. Please specify the interest, calculated pursuant to Section 525.50 of the  
157 Commission's rules, for inclusion in Adjustments to Gas Costs (Factor A).

158 A. Interest, calculated pursuant to Section 525.50, for inclusion in  
159 Adjustments to Gas Costs (Factor A), is shown on Page 2, Line 9, of  
160 Respondent's Exhibit 1, and reflects a recoverable amount of \$530,765.16 for  
161 the CGC, a refundable amount of \$177,158.97 for the NCGC and DGC and a  
162 refundable amount of \$1,334.40 for the TS, for a total recoverable amount of  
163 \$352,271.79.

164 Q. What was Respondent's over- or under-recovery for fiscal 2000?

165 A. Respondent's over- or under-recovery for fiscal 2000 is shown on Page 2,  
166 Line 10, of Respondent's Exhibit 1. The over- or under-recovery for each Gas  
167 Charge can be determined by deducting the amount on Line 6 (revenues arising  
168 through the application of each gas charge) from the amount on Line 5 (costs  
169 recoverable through each gas charge) and adding the amounts on Line 7  
170 (separately reported pipeline refunds and surcharges), Line 8 (separately  
171 reported other adjustments), and Line 9 (interest). Using this calculation,



172 Respondent's over- or under-recovery for fiscal 2000 reflects an under-recovery  
173 of \$36,014,006.73 for the CGC, an over-recovery of \$504,754.01 for the NCGC  
174 and DGC, and an under-recovery of \$35,999.43 for the TS, for a total under-  
175 recovery of \$35,545,252.15.

176 Q. Please specify the recovery balance for the reconciliation year.

177 A. The recovery balance for the reconciliation year, which reflects the sum of  
178 the (refundable)/recoverable balances for fiscal years 1999 and 2000 for each  
179 respective gas charge, is shown on Page 2, Line 11, of Respondent's Exhibit 1.  
180 This amount, which can be determined by summing the amounts on Line 4 (fiscal  
181 1999 balance) and Line 10 (fiscal 2000 balance), reflects an under-recovery of  
182 \$44,804,686.84 for the CGC, an over-recovery of \$1,158,446.41 for the NCGC  
183 and DGC and an over-recovery of \$25,877.77 for the TS, for a total under-  
184 recovery of \$43,620,362.66.

185 Q. Please specify the total adjustments to gas costs (that is, Factor A) that  
186 were amortized to Schedule I in Respondent's fiscal 2000 monthly filings but  
187 were not yet reconciled through Schedule II of Respondent's monthly filings at  
188 September 30, 2000.

189 A. Total unreconciled adjustments to gas costs (Factor A), which are shown  
190 on Page 2, Line 12, of Respondent's Exhibit 1, reflect a recoverable amount of  
191 \$13,388,581.16 for the CGC, a refundable amount of \$221,497.41 for the NCGC  
192 and DGC and a refundable amount of \$13,502.24 for the TS, for a total  
193 recoverable Factor A of \$13,153,581.51. These adjustments, for the reported  
194 months of August and September, 2000, are not yet reconciled at the end of

195 fiscal 2000. However, they are reflected in the CGC, NCGC and DGC, and TS  
196 Gas Charges for the effective months of October and November, 2000, which fall  
197 within fiscal 2001.

198 Q. Please specify any unamortized balance at the end of fiscal 2000.

199 A. The unamortized balance at the end of fiscal 2000 is shown on Page 2,  
200 Line 13, of Respondent's Exhibit 1. The unamortized balance for each  
201 respective Gas Charge can be derived by deducting the amount on Line 12  
202 (unreconciled Factor A adjustments) from the amount on Line 11 (the over- or  
203 under-recovery balance for the reconciliation year). Respondent's unamortized  
204 balance at the end of fiscal 2000 reflects a recoverable balance of  
205 \$31,416,105.68 for the CGC, a refundable balance of \$936,949.00 for the NCGC  
206 and DGC, and a refundable balance of \$12,375.53 for the TS, for a total  
207 recoverable balance of \$30,466,781.15.

208 Q. Please specify any Factor O amounts requested by Respondent for fiscal  
209 2000.

210 A. There are no Factor O amounts requested by Respondent for fiscal 2000.

211 Q. Does Respondent's Exhibit 1 include other reports that support the  
212 summary amounts shown on Page 2?

213 A. Yes. Respondent's Exhibit 1 includes a summary of the detailed Schedule  
214 II, Adjustments to Gas Costs (Factor A) reports that were filed as part of  
215 Respondent's monthly Gas Charge reports for fiscal 2000. Pages 6, 7 and 8 of  
216 Exhibit 1 reflect Schedule II reports that were filed for the CGC, NCGC and DGC,  
217 and TS, respectively. These reports reflect the monthly reconciliation of

218 recoverable gas costs and Gas Charge revenues, adjustments to gas costs  
219 (Factor A), refunds and other adjustments, Factor A amortizations and  
220 unamortized balances, Factor O amortizations and unamortized balances, and  
221 interest determined for each Gas Charge. Finally, page 9 of Exhibit 1 contains  
222 notes that explain Gas Charge reconciliation summary items noted on page 2 of  
223 Exhibit 1.

224 Q. Does this conclude your direct testimony?

225 A. Yes, it does.